

Views and Estimates of the Committee on Financial Services on Matters to be Set Forth in the Concurrent Resolution on the Budget for Fiscal Year 2008

Pursuant to clause 4(f) of rule X of the Rules of the House of Representatives for the 110th Congress and section 301(d) of the Congressional Budget Act of 1974, the Committee on Financial Services is transmitting herewith (1) its views and estimates on all matters within its jurisdiction or functions to be set forth in the concurrent resolution on the budget for fiscal year 2008 and (2) an estimate of the budgetary impact of all legislation which the Committee expects to consider during the coming session.

SECURITIES AND EXCHANGE COMMISSION

The President's proposed budget for fiscal year 2008 (FY 2008) includes a three percent increase in total budget for the Securities and Exchange Commission (SEC) that would hold staffing levels across the SEC constant from 2007. This year, the SEC has experienced a reduction in full-time equivalent staff of approximately three percent from 2006 levels. Since 2005, staffing levels overall at the SEC have decreased by more than seven percent on a full-time equivalent basis, and by close to eleven percent in terms of actual positions. The reduction in staffing at the SEC comes despite continued increases in underlying market activity and increases in the number of entities under the direct oversight of the SEC.

Notwithstanding the problems in the mutual fund markets in recent years and the ongoing efforts to improve regulation in that area, staffing in the Division of Investment Management remains below levels from 2004. The shrinkage of staffing in this area may jeopardize the ability of the SEC to address adequately the increasingly complex policy issues that continue to arise in this area, particularly given that registrations of hedge fund advisors remain well above 2004 levels, in spite of the court's reversal of the SEC rule requiring registration of hedge fund managers.

Additionally, inspections are a key component of SEC oversight of investment advisors, but staffing for the Office of Compliance Inspection and Examinations (OCIE) dedicated to investment companies and advisors has been shrinking for the last three years. The SEC expects to conduct only 1,550 inspections of investment companies and advisors in 2007 and in 2008, well below the 1,874 such inspections conducted in 2002. While that decrease is due at least in part to the increasing complexity of many of the inspections conducted, this means that many funds and advisors are not inspected for increasingly lengthy periods of time.

Similar results can be seen in other key divisions of the SEC. Full-time equivalent staff positions in the Division of Enforcement are expected to be down by nine percent since its peak in 2005. In spite of the large number of on-going investigation concerning options back-dating and increasing concerns about the level of insider trading taking place in the markets, staffing in the Division of Enforcement is now back to below 2004 levels. At the same time, the SEC has embarked on major initiatives to overhaul its electronic reporting system for public companies to make their financial reporting more accessible to investors, as well as implementation of major changes to the structure of the trading markets that will

necessitate increased oversight of the markets. The SEC's ability to effectively carry out its on-going responsibilities while undertaking major projects and enforcement efforts may be jeopardized by the overall reductions in staffing.

The Committee plans to examine these and other areas of the SEC's operations carefully as we conduct oversight of the agency in the coming year to determine the adequacy of the existing FY 2007 and proposed FY 2008 budgets.

GOVERNMENT SPONSORED ENTERPRISES

The Committee continues to support improved regulatory oversight of the housing Government Sponsored Enterprises (GSEs) - Fannie Mae, Freddie Mac, and the twelve Federal Home Loan Banks. The GSEs play a significant role in providing liquidity to the secondary mortgage market and financial institutions. The importance of the GSEs to the financial system and national economy necessitates that they be supervised by a regulator with the tools and resources needed to ensure their safety and soundness and mission compliance.

Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System rank among the largest financial institutions in the United States. The GSEs have more than two trillion dollars of outstanding debt obligations, held by a large number of federally insured banking institutions, as well as domestic and international investors including central banks.

Fannie Mae and Freddie Mac, however, have since 2003 disclosed significant accounting irregularities and undergone management reorganizations; some Federal Home Loan Banks have also experienced accounting problems and management changes. As a result, they too are in the process of making financial restatements.

More can and should be done to improve the regulatory oversight of the GSEs. Fannie Mae and Freddie Mac's regulator in particular has considerably less power for protecting the safety and soundness of its regulated entities as compared to federal banking regulators. Both of the GSE regulators would also benefit from enhanced resources and expertise to adequately monitor the activities of these large and complex institutions.

The Committee believes that consolidating GSE supervision into a single regulatory body likely will result in stronger oversight. Last Congress, the House passed H.R. 1461, the Federal Housing Finance Reform Act of 2005. H.R. 1461 would have established the Federal Housing Finance Agency as an independent agency to oversee the safe and sound operation as well as the mission function of the GSEs. Under that bill, funding for the new regulator would continue to come from assessments on the GSEs, but would have been removed from the appropriations process, as recommended by the Administration. The bill granted the director of the agency stronger powers than current regulators in the areas of capital requirements, portfolio holdings, operations standards, enforcement, and receivership; authority to review and approve new programs and activities also was provided.

Modeled on the successful affordable housing programs of the Federal Home Loan Banks, the bill also established affordable housing funds at Fannie Mae and Freddie Mac to be financed by a percentage of after-tax corporate earnings. For the initial years of operation, these affordable housing funds would help to rebuild housing in the areas most affected by Hurricane Katrina.

While H.R. 1461 did not become law in the 109th Congress, important

progress was made in discussions with the Administration on important aspects of the new regulator's authority. The Committee anticipates capitalizing on that progress by taking up similar legislation early in 2007 and hopes for swift action by the Senate shortly thereafter.

In addition, the existing regulator for Fannie Mae and Freddie Mac, the Office of Federal Housing Enterprises (OFHEO), continues to be subject to the appropriations process. Until the GSE regulator is removed from that process, the Committee believes that adequate funding must be provided to ensure that OFHEO can continue to pursue its examinations and reviews of the GSEs' compliance with the existing consent orders at the same time that it engages in on-going enforcement actions concerning prior officials of the GSEs and related litigation.

TERRORISM RISK INSURANCE

The Congress responded to the September 11, 2001 terrorist attacks by enacting the Terrorism Risk Insurance Act (TRIA). This Act was set to expire on December 31, 2005. After the Committee acted in 2005, S. 467, the Terrorism Risk Insurance Extension Act of 2005 (P.L. 109-144), was enacted extending TRIA through calendar year 2007 and eliminating certain lines of coverage.

While there is no reliable way to predict how much insured damage future terrorists might cause, the Congressional Budget Office (CBO) had estimated that S. 467 will increase direct spending by approximately \$1.4 billion over the 2006-2010 period and by \$1.5 billion over the next 10 years. Under TRIA, the Department of the Treasury will recoup some or all of the costs of providing financial assistance through charges imposed on insurance firms. CBO expects that the increase in Federal spending for financial assistance would be nearly offset by corresponding increase in government receipts over a period of several years. CBO estimates that S. 467 will increase governmental receipts by about \$150 million over the 2006-2010 period, and by \$720 million over the next ten years. According to CBO estimates, the net expected federal outlay, spending less receipts from charges over the period 2006-2015, will be approximately \$780 million. CBO notes that the actual cost could vary greatly from the estimated amounts. The Committee agrees with the CBO that there is no reliable way to estimate how much S. 467 will cost, and that any attempt to budget for losses from terrorist attacks would be pure speculation.

The President's FY 2008 budget allocates an unspecified amount and 8 FTEs for administrative expenses for the Terrorism Risk Insurance Program (TRIP) within the Department of the Treasury. This represents a decrease of 2 FTEs from FY 2007. Considering the ongoing terrorism threat facing the nation, the Committee questions the decrease in FTEs, as it expects the program to be extended prior to its scheduled expiration on December 31, 2007.

OFFICE OF THRIFT SUPERVISION

The Committee notes that consumer complaints are handled by the Office of Thrift Supervision (OTS) through both the regional offices and Washington and that 15 FTEs are allocated for these functions with 3 additional FTEs in Washington. As

part of its oversight function, the Committee intends to review the agency's outreach to consumers and tracking of consumer complaints and to monitor the degree to which systemic problems are communicated to the examination staff.

The Committee notes that the OTS FY 2007 Budget and Performance submission articulates eight Key Strategic Issues and Challenges, none of which was consumer-oriented. One of these goals was the Promotion of the Thrift Charter. The Committee notes that this effort is a collateral duty for a number of staff members. The Committee is concerned that an inappropriate amount of resources may be devoted to this issue and will monitor this matter in the exercise of its oversight function.

The Committee is concerned with the sustainability of the examination workforce at OTS, given that 55 percent of current staff will be eligible for retirement by 2010. A sufficiently sized, well-trained examination workforce is essential to the ability of the OTS to fulfill its core mission. The Committee supports the continued allocation of sufficient resources to succession planning, training needs, staff recruitment and retention.

The Committee notes that OTS has operated with a budget surplus for the past five fiscal years, and that its overage currently provides for ten months of expenses. Retained earnings at the end of January 2007 totaled \$176.5 million, which is approximately ten months of expenses. The contingency reserve totaled approximately \$136 million - approximately 7 months of expenses. The Committee will monitor the appropriateness and use of such reserves.

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The Committee notes that consumer complaints are handled through the Customer Assistance Group in Houston and appreciates that more emphasis has been placed on and resources dedicated to this operation over the past few years, in terms of increased hours of service. The OCC anticipates adding three customer assistance specialists in FY 2008. The staff has been increased from 54.4 FTEs, 20 contractors, and a budget of \$6.5 million in 2006 to 63.5 FTEs and 20 contractors with a budget of \$8.3 million in 2007. The Committee supports additional resources and FTEs for this effort. In the exercise of its oversight function, the Committee intends to review the agency's outreach to consumers and tracking of consumer complaints and to monitor the degree to which systemic problems are communicated to the examination staff.

The Committee is concerned with the sustainability of the examination workforce at OCC, given that 30 percent of current staff will be eligible for retirement by 2010. A sufficiently sized, well-trained examination workforce is essential to the ability of the OCC to fulfill its core mission. The Committee supports the continued allocation of sufficient resources to succession planning, training needs, staff recruitment and retention.

The Committee notes that OCC revenues exceed expenses. The Contingency Reserve ensures regulatory and supervisory functions can be maintained on a steady course, notwithstanding swings in income or a major emergency. This reserve is \$292 million as of September 30, 2006. The contingency reserve is approximately 45 percent the FY 2007 budget, and is projected to be at 48 percent by year end. The Asset Replacement Reserve for replacement of major facilities and other fixed assets

including the headquarters office building and district offices is fully funded at \$104 million as of September 30, 2006. The Special Reserve for unforeseen budget shortfalls in the current budget year is currently at the target level of \$15 million as of September 30, 2006. The Committee will monitor the appropriateness and use of such reserves.

TREASURY OFFICE OF INSPECTOR GENERAL

The Committee notes the minimal increase in the funding of the Office of the Inspector General (OIG). In FY 2006, the OIG received \$16.8 million, The FY 2007 proposal showed a minor increase to \$17.4 million, and this year's request is \$18.4 million. This increase is meant to maintain current staffing levels at 115, but the Committee believes the OIG should receive additional resources.

The Committee believes that the work product of the Inspector General, both audits and investigations, is useful not only to the Secretary of the Treasury but also to the Committee as it exercises its oversight of the Department. Given Treasury's role as the nation's bursar as well as its roles in enforcing economic sanctions and embargoes and in compiling and analyzing data on financial crimes, the Committee believes that a healthy, independent inspector general operation is vital not only to efficient operation but to continued cost-control efforts. Additionally, the Committee believes that increasing the number of audit positions at the office would be useful to provide ongoing analysis of a variety of regulatory and compliance operations performed by the Department, including coordination between enforcement and regulatory functions. In particular, the Inspector General has raised questions regarding several major Treasury programs handling huge sums that need audit attention, but have not been audited recently or at all, due to funds availability. For example, Treasury's Debt Issuance Process (\$4.6 trillion in debt held by the public) was last audited in 1999, and the following programs have never been audited:

FMS' Controls Over Disbursements (\$1.9 trillion annually),
CDFI Fund's New Markets Tax Credit Program (\$15 billion),
TTB Tax Audit Division Targeting Program (\$17 billion),
OCC/OTS Examination Coverage of Financial Institutions Off-Shore Outsourcing,
and
Background Checks Over Individuals Handling Sensitive BSA Reports.

Additionally, the OIG needs sufficient funding to perform follow up work to verify that corrective actions for previously reported deficiencies were, in fact, implemented and effective. Increased OIG oversight of Treasury's BSA and intelligence systems development efforts, as well as other high risk capital investments is critical. Given the history of failed and problem-plagued capital investments at Treasury, and the potential for damage to the country's financial systems and increasingly more sophisticated terrorist efforts to circumvent anti-money laundering programs, increased OIG oversight is warranted and necessary. With additional resources, the OIG will be able to more effectively monitor major

capital investment projects, particularly in the critical early stages. These audits would help the Department avoid costly overruns, late or failed delivery of systems or projects, weak security controls, and other problems.

The Inspector General identified Treasury's Management of Capital Investments as a significant management and performance challenge. The challenge was first identified in 2004 in response to (1) significant cost escalations with the HR Connect system and (2) delays and significant cost increases noted in an OIG audit of the Treasury Repair and Restoration (TBARR) project due to inadequate planning and other inefficiencies during the renovation itself. More recently, they reported in February 2006 that the Department's poor planning and execution of its billion dollar Treasury Communications Enterprise (TCE) procurement led to delays and increased costs. They have also noted an increase in the types and complexities of cases associated with acquisitions of major capital investments. These cases include procurement irregularities, potential conflict of interest, and unauthorized release of proprietary software.

For FY 2007, the Department's portfolio of major IT investments included 54 projects, including 31 projects for non-IRS bureaus and offices. The Department, in consultation with OMB, identified three non-IRS projects as "high risk" – HR Connect, BSA Direct, and Treasury Foreign Intelligence Network (TFIN). The high risk nature of these projects was recently underscored by the FinCEN's suspension of BSA Direct after significant concerns were raised about schedule delays and project management.

Based on available resources OIG has focused much of its efforts to date on mandated work such as (1) the annual financial audits under the Chief Financial Officers Act, Government Management Reform Act, and other statutes, (2) the annual independent evaluation of the Department's information security policies and practices under the Federal Information Security Management Act (FISMA); and (3) the biannual independent review of the Department's privacy and data protection policies and procedures under section 522 of the Transportation, Treasury, Independent Agencies, and General Government Appropriations Act, 2005 (Public Law 108-447). Their remaining resources have focused principally on the high risk area of the Department's Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) programs. For the foreseeable future, these areas of focus will not change, but improved coverage is imperative. The Committee believes increased resources are critical to improving capital investment audit and oversight.

Additional resources would be used to increase the OIG staff by hiring personnel with the specific capabilities and skills required to accomplish increasingly complex audits of major IT systems acquisitions, improve OIG technical ability, and allow for the use of expert contractors where prudent and necessary. With additional funding, OIG will be able to audit capital investment projects at inception or early in their life cycle for the purpose of ensuring well defined requirements; reasonable cost estimates; appropriate acquisition plans; adequate project management; and, with respect to IT investments, appropriate security at the "front end." OIG also expects to be able to better monitor steady-state projects to, among other things, determine whether reported returns on investments have been

achieved. The Committee believes these goals are important and should receive additional resources sufficient to carry out these goals.

TREASURY BUREAU OF FINANCIAL CRIME ENFORCEMENT NETWORK

The Committee notes the decrease in the President's budget request for the Financial Crimes Enforcement Network (FinCEN) from \$91.3 million requested for FY 2007 to \$87.4 million requested for FY 2008. The Committee questions and will monitor issues surrounding the request for \$2.5 million to begin the design and initial development of the Cross-Border Wire Transfer System, noting that the Treasury Secretary has not determined, as required by section 6302 of the Intelligence Reform and Terrorism Prevention Act of 2004 (Public Law 108-458), that the reporting of such transmittals is reasonably necessary to conduct the anti-money laundering and anti-terrorism financing efforts of the Secretary, nor certified the technical feasibility of such a program. The Committee notes the requested \$1.613 million to improve Bank Secrecy Act (BSA) E-filing, and will monitor FinCEN's efforts to increase the number of institutions filing electronically and the total number of electronic filings. The Committee, noting its concern over the suspension of the BSA Direct program and associated program-management deficiencies at FinCEN, also notes with approval the request for \$1.75 million to enhance FinCEN's project-management functions. The Committee is concerned that FinCEN has been operating without a Director since December 2006 and that the last Director served for less than a year. The Committee believes that it is important for this position be filled and that the candidate selected be committed to a period of service necessary to provide adequate direction, and expresses general concern about FinCEN's ability to attract and retain top personnel in general. The Committee will closely monitor the ability of FinCEN to meet its goals without leadership continuity.

TREASURY OFFICE OF FOREIGN ASSETS CONTROL

The Committee notes the increase in funding for the Office of Foreign Assets Control, from the FY 2007 budget (including funds from the Omnibus appropriations bill) of \$22.8 million to \$25.081 million for FY 2008, an increase that includes two more full-time staffers to deal with terrorism issues and three more for issues dealing with weapons of mass destruction. The Committee also notes the Treasury pilot program to develop a state-of-the-art case management system at OFAC. The Committee will monitor OFAC's efforts to combat terrorist networks and state sponsors of terrorism and weapons of mass destruction proliferation through sanctions as their work increases through Executive Orders and Treasury designations. The Committee will continue to monitor and encourage OFAC's efforts to increase communication between the agency, institutions, and the law enforcement and intelligence communities, to increase efficiencies and decrease compliance burdens.

TREASURY OFFICE OF TERRORISM AND FINANCIAL INTELLIGENCE

The Committee notes the increase in requested funding for the Treasury Office of Financial Intelligence (OTFI), from an FY 2007 request of \$45.4 million to a FY 2008 request of \$56.224 million. The Committee will monitor the development of specific new initiatives to disrupt the financing of terror throughout the world. The Committee notes that many of the OTFI initiatives requested in the FY 2007 budget request were fully funded in the FY 2007 Omnibus appropriations bill.

TREASURY OFFICE OF TECHNICAL ASSISTANCE

The Committee notes the \$24.8 million requested for Treasury's Office of Technical Assistance (OTA), an increase from the \$23.7 million requested by the President for FY 2007. The Committee will closely monitor OTA's use of resources and coordination with relevant government agencies in providing technical assistance abroad. The Committee is concerned that the problems outlined in the GAO report (GAO-06-19) "Terrorist Financing: Better Strategic Planning Needed to Coordinate U.S. Efforts to Deliver Counter-Terrorism Financing and Technical Assistance Abroad" continue to exist in the delivery of technical assistance abroad and that Treasury and State have failed to adopt the recommendations of GAO; the report stated that the U.S. government lacks an integrated strategy to coordinate the delivery of counter-terrorism financing training and technical assistance to countries vulnerable to terrorist financing as a result of the effort not having key stakeholder acceptance of roles and procedures, a strategic alignment of resources with needs, or a process to measure performance. The Committee is concerned that despite the Committee holding two hearings that covered this subject in the 109th Congress and the GAO findings, the Office continues to resist adopting recommendations that would resolve these issues. The Committee will continue to monitor the situation closely and urge Treasury and State to better coordinate their efforts and use of resources in the delivery of technical assistance abroad.

UNITED STATES MINT AND THE BUREAU OF ENGRAVING AND PRINTING

The Committee notes that the United States Mint and the Bureau of Engraving and Printing (BEP) operate with continuing indefinite appropriations and thus do not receive new annual appropriations, but believes continued fiscal restraint at the two bureaus nevertheless is important. The Committee will monitor the Mint as it produces and distributes circulating coins, including the Presidential \$1 and Sacagawea \$1 coins; 24-karat First Spouse Gold coins and 24-karat Gold Bullion coins; and as it produces coins honoring Oklahoma, New Mexico, Arizona, Alaska and Hawaii as part of the 50 State Quarters Program. The Committee will review any proposals of the Mint, if offered, related to its work with the Federal Reserve in determining the appropriate production levels and distribution of circulating coins of each denomination, and will review, if offered, any Mint proposal to control or decrease the cost of producing circulating coins by considering alternate compositions to alleviate the upward cost pressures of commodity metal prices. The Committee will monitor BEP as it produces and delivers notes to the Federal Reserve System. Additionally, the Committee will monitor the BEP as it redesigns the \$5 and \$100 notes, and as the new \$5 note begins circulation in spring 2008 and

the new \$100 begins circulation in FY 2009. The Committee will also monitor BEP's anti-counterfeiting efforts.

DEBT RELIEF

This Committee has for a number of years worked in a very bipartisan way on the issue of debt relief for the world's poorest countries as an essential component in the overall effort to help alleviate the desperate poverty and misery that exists in many parts of the world.

The Committee commends the efforts of the Administration in establishing the Multilateral Debt Relief Initiative (MDRI), which is the most recent and comprehensive effort by the International Monetary Fund (IMF), World Bank, and African Development Bank (AfDB) to provide poor country debt relief. Proposed by G8 finance ministers in June 2005, the MDRI provides 100 percent debt relief to select countries that are already participating in the joint-IMF/World Bank Heavily Indebted Poor Countries (HIPC) program. The goal of the MDRI program is to free up payments that would otherwise be made to these international financial institutions so that poor countries can use those resources to focus on alleviating illness, desperate hunger and poverty.

The Committee strongly supports the President's FY 2008 request for \$207.3 million for debt relief activity, which includes U.S. contributions to the HIPC trust fund and the Tropical Forest Conservation Act debt relief program, and funding to cover the cost of canceling the remainder of the Democratic Republic of Congo's debt to the U.S.

The Committee commends the Administration's decision to begin bilateral cancellation for Liberia in the FY 2008 budget, and commends in particular the Administration's recent efforts in working with other donor countries to identify existing resources at the IMF and elsewhere to eliminate Liberia's arrears to the World Bank, the IMF and the African Development Fund, which will allow Liberia to move towards 100 percent debt forgiveness.

The Committee is encouraged by the economic progress and institutional reform Liberia has achieved under the leadership of President Johnson-Sirleaf since she was elected in 2005 after a quarter century of bloody coups and wars. The moral argument for canceling all Liberia's debt without delay is clear, since much of the debt burden was accumulated during the oppressive and undemocratic regimes of Samuel Doe and Charles Taylor, who did not use the money to benefit the people of Liberia. The Committee fully supports President Johnson-Sirleaf's continued reform efforts and urges the Administration to make complete debt cancellation for Liberia a top priority.

The Committee continues to have a particular concern about the very dire situation of the people of Haiti. The Committee urges the Administration to also focus its efforts and its advocacy within the international community to swiftly provide complete debt cancellation for Haiti to help alleviate one of the worse cases of human misery in the hemisphere and to show the people of Haiti the kind of compassion and understanding that the Committee believes good policy calls for.

MULTILATERAL DEVELOPMENT BANKS

The President's FY 2008 budget includes net increases of \$219 million for multilateral development banks and institutions such as the World Bank, Inter-American Development Bank, and the African Development Fund. Notably, the request includes \$175 million to cover past arrears to these institutions, \$150 million of which is owed to the World Bank International Development Association (IDA). In total, IDA receives a \$119 million increase over its FY 2007 level, which importantly will cover the US commitment to the historic 100 percent multilateral debt relief initiative. Other institutions receiving increases include the Inter-American Development Bank (\$34 million increase), the Asian Development Bank (\$35 million increase), the African Development Fund (\$7 million increase) and the International Fund for Agricultural Development (\$3 million increase).

The Committee supports these funding requests, and urges the Administration to continue to press for increased accountability, openness and transparency both within the recipient countries and within the institutions themselves, so that the multilateral development banks can more effectively carry out their mission to alleviate poverty, promote sustained economic growth, and deal with the years of abuse and neglect and misery in which so many people have been condemned to live.

EXPORT-IMPORT BANK OF THE UNITED STATES

The Export-Import Bank (the Bank) was re-authorized in the 109th Congress for five years (Public Law 109-438). The Bank is an important source of financing for U.S. exporters and plays a particularly important role in assisting these exporters when they are at a commercial disadvantage due to subsidies provided to their foreign competition by foreign governments.

The Committee notes that the Administration's budget request includes a proposal which would make the Bank a self-funding agency. The proposal would permit the Bank to rely on its own revenues in order to fund its program and administrative budgets. The Committee will be seeking more information on this proposal and is particularly interested in assessing the impact of this proposal on the fees the Bank charges its clients, and particularly its small business clients. The Committee, noting past instances in which the Bank at least partially failed to carry out statutory requirements, particularly with respect to enabling small business exporters, will also thoroughly consider any impact this proposal may have on the oversight function of Congress generally and this Committee in particular.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

The Administration's fiscal year 2008 budget request for the Community Development Financial Institutions Fund (CDFI Fund) represents a significant decrease in funding from the amounts Congress appropriated in previous years, including \$118 million for fiscal year 2001 and \$55 million for FY 2006. For fiscal year 2008, the CDFI Fund would only receive \$28.6 million.

The CDFI Fund was established by the Riegle-Neal Community Development and Regulatory Improvement Act of 1994 to encourage financial institutions to

provide funding and technical assistance for economic development initiatives in under served rural and urban communities. The Treasury Department administers the program, which awards grants to banks, credit unions, and other entities that have been certified as eligible CDFIs. The CDFI Fund has played an important role in the economic revitalization of distressed communities across the nation. Since its inception, the Fund has made over \$820 million in capital grants, equity investment, loans and awards to fund technical assistance and organizational capacity building awards to CDFIs and other financial institutions to support activities in underserved communities. According to Treasury officials, for every Federal dollar the CDFI Fund invests in a local CDFI through its grant program, the CDFI leverages close to \$20 in private sector investment.

Although the program's authorization expired in 1998, the CDFI Fund has continued to receive appropriated funds in the years since because of its bipartisan support and proven track record. The Committee is disturbed by this reduction as well as the Administration's proposal (for the third consecutive year) to eliminate funding for important CDFI competitive grant programs. The Committee remains committed to preserving the CDFI Fund and ensuring it remains an effective tool for promoting economic development and increased financial services in under served communities.

HOUSING AND COMMUNITY OPPORTUNITY

SUMMARY

The Department of Housing and Urban Development (HUD) and Rural Housing Service (RHS) programs are designed to provide a housing safety net for our nation's poorest families and the homeless, to foster economic opportunities for low- and moderate-income families, and to strengthen urban and rural communities.

Unfortunately, the FY 2008 HUD budget continues a six year effort by the Bush Administration to dismantle or make deep funding cuts to critical federal housing programs. These cuts impair the ability of federal housing programs to serve lower income families, seniors, and disabled persons.

As was proposed last year, the FY 2008 Bush Administration Rural Housing Service (RHS) budget also cuts funding for programs which build, repair, and preserve affordable rural housing units, and proposes to shift rural homebuyers into more expensive federal mortgage loan products, which will reduce homeownership opportunities.

The FY 2008 budget proposes to cut a number of critical HUD programs by a combined total of more than \$1.5 billion compared to the recently enacted FY 2008 Continuing Resolution. If enacted, funding levels for most of the major HUD programs will have suffered substantial reductions in real terms since the Bush Administration took office – including a 51 percent cut to the Section 811 disabled housing program, a 38 percent cut to the Section 202 elderly housing program, a 43 percent cut to Community Development Block Grants (CDBG), a 30 percent cut to public housing, a 20 percent cut in Native American housing block grants, a 9 percent cut to HOME block grants, and a 17 percent cut to Fair Housing enforcement.

Moreover, if adopted, the Administration FY 2008 budget would mean that in just six years, a number of important housing programs will have been eliminated. These include: the public housing Drug Elimination Program (eliminated in 2001) and the HOPE VI public housing revitalization program; Brownfields redevelopment grants; Urban Empowerment Zone funding; the HUD Rural Housing and Economic Development program; Section 108 CDBG loans used by cities to leverage larger economic revitalization projects; the RHS Section 515 rental housing construction and preservation program, and the RHS Section 502 Direct Home Mortgage Loan mortgage program.

AFFORDABLE HOUSING CONSTRUCTION-ELDERLY AND DISABLED

The President's budget abandons a 30 year federal commitment to build affordable housing for persons with severe disabilities. The budget proposes a 51 percent cut (\$112 million) to the HUD Section 811 disabled housing program. The budget virtually eliminates any funds for Section 811 disabled housing construction, even though that program has been used effectively by Faith-Based Organizations and other non-profit organizations. This is the third year in a row that the Administration has tried to virtually eliminate such new construction funding for affordable housing for the disabled.

The President's budget also proposes a 22 percent cut (\$160 million) to the HUD Section 202 elderly housing program. This cut to the 202 program comes at a time when over 8.4 million seniors make less than \$10,500 a year, and 1.4 million very low income seniors pay more than 50 percent of their income for rent or live in substandard housing, and when there are an estimated nine seniors waiting for each Section 202 unit that becomes available.

AFFORDABLE RENTAL HOUSING

The FY 2008 budget also undermines the major existing HUD rental assistance programs. The budget continues Bush Administration efforts to curtail the Section 8 voucher program, which have resulted in the loss of some 150,000 vouchers over the last three years. The Bush Administration appears to have backed off its previous efforts to block grant the voucher program and appears to drop previous proposals to significantly weaken targeting rules that direct scarce voucher resources to our nation's poorest families and rent rules that ensure that rents are affordable. The budget also includes a sound provision to incentivize housing agencies to use their vouchers to serve more families, by basing administrative fees on the number of voucher families served.

However, the FY 2008 voucher renewal funding request provides for an increase of only \$9 billion, compared to a voucher baseline of \$14.45 billion. This microscopic increase would not even come close to covering the \$150 million to \$200 million cost of new tenant protection vouchers – vouchers which are not really new vouchers, but just a transfer of assistance from other HUD programs like project-based assistance. The request would also not provide for any inflation adjustment. A conservative estimate would be that the request is more than \$500 million less than necessary to maintain the vouchers funded under the FY 2007 Continuing Resolution. This would exacerbate the loss of vouchers in recent years.

The Bush Administration budget continues the serious under-funding of public housing, a program which serves our poorest families, seniors, and disabled persons. The President's budget proposes another \$450 million in cuts to public housing. Once again the bulk of the cuts are in the Public Housing Capital Fund, which is used to repair and maintain units. For the fifth year in a row, the Administration is also trying to eliminate the highly successful HOPE VI program to revitalize distressed and obsolete public housing projects. While the Administration has not succeeded in killing the HOPE VI program, funding has fallen from \$574 million just a few years ago to only \$99 million appropriated for FY 2007. The budget proposes to rescind even this meager \$99 million, which was approved by Congress just a few weeks ago.

Finally, the budget would also cut \$34 million (23 percent) from the Lead Paint prevention program, which is used to ameliorate health risks to children in older apartments with health threatening lead paint hazards.

COMMUNITY AND ECONOMIC DEVELOPMENT

Cities and counties use flexible Community Development Block Grants (CDBG) to meet critical local community development, infrastructure, and affordable housing needs. Two years ago, the Administration budget proposed to eliminate CDBG as we know it, to consolidate and transfer CDBG and 17 other programs to the Commerce Department, and to cut overall funding for these programs by 35 percent. Fortunately, this proposal was strongly rejected on a bi-partisan basis by Congress.

The Administration has since backed off from this proposal to eliminate CDBG – but has not backed off from its goal of making severe funding cuts. The FY 2007 budget cuts \$736 million (20 percent) from CDBG block grants.

The President's budget also eliminates funding for a number of other community development programs, including HUD Brownfields Redevelopment grants (funded at \$25 million in recent years), Urban Empowerment Zones, and Section 108 CDBG loans that cities use to leverage larger scale economic development projects.

RURAL HOUSING

The President's budget zeroes out funding for the Section 515 multi-family rental housing direct loan program. This action abrogates the Federal role in preserving the existing affordable housing stock of over 500,000 RHS Section 515 rural rental housing units. A November 2004 RHS-commissioned study concluded that 92 percent of this 515 housing stock was worthy of being preserved, at a cost of \$210 million in the first year, and \$2.6 billion over the long run. Yet, instead of addressing this need, the President's budget fails to ask for a single dollar for building, repairing, or preserving Section 515 rural units.

The budget also zeros out the Section 502 single family direct loan program and severely cuts the Self-Help program, both of which promote homeownership for rural Americans. The elimination of Section 502 direct loans and the cuts to Self-Help are inconsistent with a stated Administration priority for homeownership.

In the place of the Sections 502 and 515 direct loan programs, the Administration proposes shifting homeowners and renters to rural loan guarantee

programs for both single and multifamily RHS loans. Guaranteed loans have a much higher interest rate than direct loans and result in significantly increased monthly expenses for homeowners and renters. On top of that, even the current higher cost of a guaranteed loan will become even higher for a homebuyer using and RHS mortgage loan, because the Administration budget proposes to raise the 502 guaranteed loan fee from 2 percent to 3 percent. For a relatively small increase in credit subsidy appropriations compared to the Administration budget, it would be possible to maintain the Section 502 direct loan program and to avoid increasing loan fees on Section 502 guaranteed loans.

The budget also cuts funding for the farm labor housing program by more than half.

Finally, as noted, the HUD budget eliminates funding for the Rural Housing and Economic Development program, funded at \$25 million in recent years.

HOUSING INITIATIVES

The Committee is providing leadership on meeting America's critical affordable housing needs. The Committee will advance a number of measures that will, among other things, increase home ownership, preserve and increase the stock of affordable rental housing, and better meet the housing needs in rural communities. The budgetary impact of most of these pieces of legislation is neutral. Many initiatives will generate a significant increase in government revenues that will offset any additional spending.

GSE Affordable Housing Fund

The Committee's proposed GSE bill creates an "Affordable Housing Fund," to be managed by the new GSE regulator [the "Director"]. Funds may be used for grants for the production, preservation, and rehabilitation of rental housing and for homeownership for first-time homebuyers, in both urban and rural areas. One hundred percent of the affordable housing funds available in the first year will go to Louisiana and Mississippi for affordable housing needs arising out of Hurricane Katrina. Thereafter, funds are allocated by formula to the states, D.C., federal territories, and federally recognized tribes. Funds are derived through contributions by Fannie Mae and Freddie Mac in amounts equal to 4.2 basis points on each GSE's total new business purchases each year from 2007 through 2011. The program sunsets after five years. Seventy-five percent of these funds are used for affordable housing purposes, and the remaining twenty-five percent are allocated to the federal government, to keep the bill deficit neutral. In addition, this bill is on budget because although it will result in higher spending, this spending is offset by collections.

FHA Bill

The bill will produce major reforms of the Federal Housing Administration (FHA) by, among other things, raising loan limits, allowing flexibility in the amount of down payment required by borrowers, authorizing mortgage insurance premiums

to be adjusted based on loan level risk, and expanding the Home Equity Conversion Mortgages (HECM) program. In addition, the proposed FHA bill contains important consumer protections, timely payment incentives and high risk borrower protections.

Whatever costs there might be regarding serving less creditworthy borrowers are expected to be more than offset from higher revenues from high cost loan limits, along with eliminating the HECM loan limit cap. The Committee notes that the Administration has proposed fee increases in the FHA multifamily loan and Ginnie Mae programs. The Committee opposes these fee increases because they will adversely impact HUD's ability to provide homeownership and rental housing opportunities.

Multifamily Housing

The Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) was enacted with two goals in mind: (1) eliminate above-market rents at properties with FHA-insured mortgages and project-based Section 8 assistance and (2) to preserve affordable rental housing in markets where it is needed. To achieve these goals, the legislation created a Mark-to-Market (M2M) program comprised of a set of preservation tools. These tools, which have been used to preserve more than 220,000 affordable apartments at an estimated net cost savings to the taxpayer of \$1.9 billion, were set to expire on September 30, 2006. A five-year extension of the M2M preservation tools was included in the long-term Continuing Resolution for Fiscal Year 2007 (H.J. Res. 20; Public Law 110-5).

The Committee notes, however that the Continuing Resolution did not include some of the M2M recommended by the Department of Housing and Urban Development and included in legislation approved by the Committee in the last Congress [H.R. 6115]. That bill included provisions which would have increased the portfolio-wide cap on exception rents, extended the three-year limit on the HUD Secretary's ability to modify, assign, or forgive subordinate debt, and expanded the range of properties eligible for Mark-to-Market restructuring. According to the Congressional Budget Office, these reforms would have resulted in additional cost-savings for the Federal government. Accordingly, the Committee believes that enactment of these preservation provisions will further strengthen the M2M program. The Committee also strongly believes that any such savings from enactment of these reforms should be reinvested in activities that preserve the existing stock of affordable housing units.

FEDERAL EMERGENCY MANAGEMENT AGENCY

The National Flood Insurance Program (NFIP) experienced unprecedented claims resulting from the 2005 hurricane season. The NFIP has borrowed more than \$17 billion from the U.S. Treasury to meet its contractual obligations with policyholders to pay claims from the 2005 hurricane season.

In the 109th Congress the NFIP's borrowing authority was increased from \$1.5 billion to \$3.5 billion to \$18.5 billion, and finally \$20.775 billion. The NFIP estimates it will reach this limit in September 2007, and the Administration projects

the NFIP will need an additional \$350 million in borrowing authority this year to pay claims and make interest payments on its outstanding debt. Interest payments are estimated to be more than \$800 million annually, which is just under half of the annual revenue of the NFIP.

The Committee understands the contractual relationship and legal obligation to meet existing policyholder claim obligations and make interest payments on outstanding debt. The Committee will continue to work with FEMA to understand the fiscal condition of the NFIP and to garner better estimates of future borrowing authority needs to ascertain the proper course to follow.

The Committee will consider a bill this year to reform the NFIP and increase the borrowing authority if needed to pay policyholder claims and make interest on the NFIP's outstanding debt. The reform measures will attempt to strengthen the NFIP by increasing participation in the program, remove subsidies for certain preFIRM properties, strengthen mitigation programs to better protect homes from flooding, authorize flood map modernization programs to improve risk assessment, and increase accountability for the NFIP and FEMA in executing the program.

The Committee will also conduct oversight hearings to learn whether the NFIP claims process has resulted in any misdirected or fraudulent claims against the NFIP, particularly from the unprecedented claims resulting from the Katrina and Rita hurricanes.

The Committee supports the Administration's 2008 budget request of \$124 million for flood insurance mitigation programs, which the Committee has authorized.